

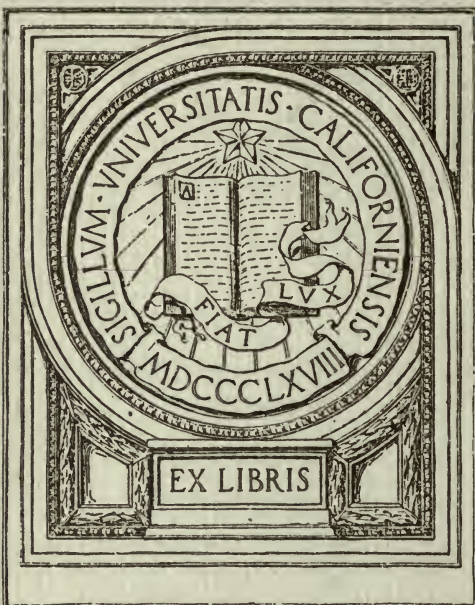
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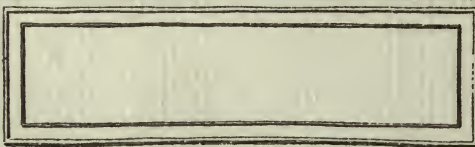


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Short Papers on—

1. A Capital Levy as a Means of Taxation.
2. The Present Unrest in Industry.
3. Capital and Labour.
4. The Nationalisation of Industry.

By

W. W. PAINE.

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Price Two Shillings.

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PREFACE.

These short essays were originally contributed, at the dates given at the foot of each of them, to the Monthly Financial Report of Lloyds Bank. My only excuses for reprinting them are, that I have been asked to do so, and that they deal, in popular and simple form, with some of the most urgent and engrossing questions of the present time.

Since the essay on the subject of a Capital Levy was written, that question has been much discussed in connection, more particularly, with the enquiry by the Select Committee of the House of Commons into the proposals put forward by the Board of Inland Revenue, for special taxation of war-time wealth.

I see no reason to modify any of the conclusions arrived at in my essay published in December, 1918; indeed the result of the Committee's enquiry, directed to a particular form of Capital Levy, seems to emphasise all the objections, which I pointed out, to that form of taxation.

The result of this enquiry has shewn that, apart from the views of a few purely theoretical economists, who have no practical or first-hand knowledge as to the probable effect of such taxation on the trade of the country, there is practical unanimity among business men engaged in every department of commerce, that taxation of capital—which is taxation of the seed instead of the harvest—is about the worst form of taxation that could be devised for any industrial community and would, through the dislocation of trade, bring in its train a vast amount of unemployment and distress amongst our workpeople.

The other essays reprinted in this little volume are designed to suggest in merest outline, the general grounds for combating the propaganda, now being sedulously spread among our workpeople by the more extreme of their leaders, against what they term "the capitalistic system" and in favour of the "Nationalisation of Industry."

To these gentlemen I would say that, before their arguments for the abolition of our present system can carry any conviction, it is incumbent upon them to shew that there is any practicable alternative which will maintain our 45 million people in at least equal conditions of life to those which they now enjoy.

Speaking generally, our working classes are better off and live in better conditions than those of any other country except perhaps those of the United States of America and of our own Dominions, which have been free from many of the difficulties inherent in the older settled countries, and I trust their leaders will be induced to pause before committing them to rash and hazardous experiments, which, in the only instances in which they have been put to a practical test, have brought untold misery in their train.

Better far to keep our existing structure of society and to seek to remedy the imperfections which it still admittedly contains.

W. W. PAINE.

I.

A Capital Levy as a Means of Taxation.

THE proposal of a levy on capital has been made by those who are desirous of freeing the nation at one stroke from the burden of its present indebtedness, or a considerable part of it, and consider that by so doing (at least that is their professed object) they will remove a great trammel on industry and will enable the nation to recover prosperity at an earlier date than would otherwise be the case.

From that point of view the proposal merits serious consideration.

Now, the object of the capital levy, of course, is to redeem a substantial portion of the National Debt. It is convenient for the purposes of argument to assume some figures, and the argument is not affected in this case by the correctness or otherwise of those figures, which I have no means at hand of checking.

Let us assume, then, that on the Declaration of Peace the National Debt will amount to 8,000 millions. Let us also assume that the total actual capital wealth of the country is twice that amount, or 16,000 millions in all. Both these estimates may be excessive, but, in their relation to each other, they are probably not far wide of the mark.

Let us further assume that it is proposed to redeem in this way one-half of the National Debt—say 4,000 millions—and let us make some effort to arrive at a percentage of the capital wealth which will be required for this purpose. I imagine that, as in the case of income tax, comparatively small sums of capital, up to

say £1,000, will have to be exempted from the levy. It is a matter of guesswork to estimate what proportion of the total wealth of the country is represented by holdings of £1,000 or less in the hands of each individual, but let us assume it to be one-fifth, or 3,200 millions. This would leave 12,800 millions of taxable capital. To redeem one-half of the National Debt, assumed at 8,000 millions, would therefore require an average levy of about 31 per cent. of the taxable capital.

Some suggestions are a good deal more drastic than this, but that does not really affect the basis of the proposal, though it may accentuate the mischief to result from its application.

The next assumption I have to make is that the levy would be an individual tax, that is, a tax levied exclusively upon individuals, and not, as in the case of income tax, upon companies. A levy upon the capital embarked in the enterprises of statutory and joint stock companies would have such far-reaching and disastrous effects that I cannot imagine any sane person proposing it. I shall, therefore, assume that, in the minds of the proposers, it is to be an individual tax.

The object of the levy being to reduce the National Debt, it falls next to consider how this is to be done. On the figures that I have assumed, the National Debt itself represents one-half of the taxable wealth of the country. Of course it would be quite easy, in the case of internal holders of the debt, simply to pass an Act cancelling one-half of their holdings and nothing more would be required.

But I cannot imagine any sane or just person proceeding in that manner. If any discrimination were to take place, it surely ought to be made, not against, but in favour of, those who, in the time of need,

have come forward and lent the State the wherewithal to win the war.

Again, therefore, I shall assume that the advocates of the levy would wish to tread the path of sanity and justice, so far as their proposal enables them to do so, and that the levy would be made on *all* taxable capital *pro rata*.

Now, outside war loans and other securities, representing the National Debt, the capital wealth of the country (I am speaking, of course, of the actual, not the potential wealth) is invested in various ways, and is represented by all sorts of different assets of which we can only take representative examples.

Let us take four of the principal kinds of assets:

1. Stocks, shares and securities.
2. Stocks of raw materials and merchandise.
3. Lands and buildings.
4. Plant and machinery.

As regards Class 1, no particular physical difficulty presents itself. An Act would be passed confiscating to the State the 31 per cent. of every individual's holdings, good, bad and indifferent alike, and the Government would become a partner to that extent in every joint stock and other company in the Kingdom. It may be noted in passing, that shares on which there is uncalled capital would present a serious difficulty, because I see no means by which, in justice to creditors and others, the State could avoid assuming responsibility for that liability.

But observe that, whereas in the case of the National Debt the 31 per cent. would simply be cancelled, and there would be an end of it, the same would not apply in the case of stocks and shares. These could not be cancelled—they would be bought and held by the State

until such time as the State could find buyers for them, and the proceeds of sale could be applied in the redemption of War Loans. In the meantime, their acquisition by the State would not result in any reduction of the National Debt. All they would do would be, out of their interest and dividends to provide the State with a fund out of which to pay a part of the interest on that debt.

Similarly, Class 2—stocks of raw materials and merchandise in the hands of individuals (not of companies) would not cause any insuperable physical difficulty. The State would simply annex the 31 per cent. of them. What it would do with them when it had got them is another matter, for just at a time when everybody had to be paying out 31 per cent. of his capital there could hardly be many buyers about, but that is by the way. Presumably, the State would warehouse them and bear the cost of warehousing and insurance until they could be sold.

But in Classes 3 and 4—not unimportant ones—we do come to a real physical difficulty.

Suppose my only capital consists of a house, to acquire which I have accumulated the savings of years, or if a factory, equipped with plant and machinery, or of a picture which has been bequeathed to me. The State cannot well take 31 per cent. of my house, factory, or picture—and this difficulty must obviously be met. How can it be met? Only, so far as I can see, in one of two ways. The State can require me to sell them or to mortgage them, and to pay to it the 31 per cent. of their value out of the proceeds. The State can no doubt do this, but can it find the buyer or the mortgagee? No power on earth can do that. All the banks and loan institutions in the kingdom would be unable to find the

money required—at all events without very much impairing their resources for the purpose for which they are primarily needed, viz., the trade of the country.

But, if the State cannot find the buyer or the mortgagee, it must take that position itself. It would not serve the object in view for it to become the buyer; it must, therefore, become the mortgagee, that is to say, in effect, it must accept the security of the subject's property—his house, factory or picture—for the payment of 31 per cent. of its value.

Such a mortgage cannot, of course, yield immediate payment; there is no source from which such payment can come. It must, then, be a security for the payment of the 31 per cent. by instalments, spread over a series of years. But here we are abandoning the immediate redemption of a portion of the National Debt and relapsing into its more or less gradual repayment, the only essential difference between a capital levy on these lines and a sinking fund created out of annual taxation being the length of the period over which the instalments are spread, and the facilities thereby granted to the subject to find them. It comes, then, to this, that we have to choose between a capital levy which may be spread over a period of (say) 10 years, and a sinking fund, dependent on income tax or other annual taxation which may be spread over (say) 40 years.

And, here we come to the true test of the value of the proposal.

The redemption of a portion of the National Debt will not, it is needless to say, add to the national wealth, nor will it detract therefrom. It simply involves the transfer of a certain portion of the existing national wealth from one set of persons to another. Similarly, the confiscation of (say) 31 per cent. of that

debt would merely mean the transfer of the burden of that amount from the State to the holders, because, exactly by the amount by which the State would be enriched, the holders, who are part of the State, would be impoverished. The actual national wealth can only be increased by realisation of a further part of its potential wealth, as represented by its undeveloped resources and the industry of the people, that is, by increased production, for which there are two requisites—capital or credit, and labour or industry.

The only way in which the National Debt can effectively be paid off in such a way as to relieve the community as a whole from the burden, is by the accumulation of new wealth out of our potential resources.

From the point of view, therefore, of the benefit to the community as a whole, which is the primary consideration, the question is simply, what form of taxation having for its object the ultimate redemption of the National Debt, will least interfere with or hinder the realisation and accumulation of new wealth?

If a capital levy will fulfil that condition, it ought at least to be considered, however unfairly it might operate on different sections of the community.

But will it?

Trade essentially depends on credit, which is its mainspring. There can be no increased trade or production, and therefore no creation of new wealth, without increased credit, and, if that is true at all times, it is especially true of the years of reconstruction before us.

Now, just picture the effect on credit of a capital levy. Everyone, in the course of a very limited time, will have to find for the State a considerable percentage

of his capital, in whatever form invested. Everyone, therefore, will be wanting to realise at the same time. Take the millionaire for example—he may own a million pounds invested in a mine, but he has not got £310,000 at his bankers. He must, therefore, sell or mortgage his mine.

Take again a bootmaker, a percentage of whose stock and book debts, in which his entire capital is invested, is suddenly taken by the State. The result of this may well be to threaten his whole financial position. Think too, of the disturbance of trade which must follow the taking out at one and the same time of a large percentage of the capital invested in every individual business, before that money, which will be applied in the reduction of National Debt, will find its way back into the trade of the country.

Consider also the heavy fall in prices of stocks, shares, lands, buildings, and commodities which must inevitably follow the putting of such a heap of assets on the market or the knowledge that they are hanging over the market, when all are sellers. That will bring other evils in its train upon which one need not enlarge.

One cannot doubt that such a state of things—absolutely unprecedented in the history of any civilised nation—would result in such a dislocation and disturbance of trade and credit as might shake the latter to its very foundations and bring about the most serious financial panic the country has ever known.

Certain it is, that it must for years hinder or prevent the application of capital and industry to the production of new wealth. Everyone will be far too much occupied with trying to find the money required by the State in the form of a capital levy and seeking to make good his own financial position to pay much attention to new and increased production.

As compared with such a levy, the continuance of the income tax at its present rate, though oppressive enough, and a heavy burden on the trade of the country, would be light, and, by the absence of any sudden dislocation or disturbance, would give the trade of the country a reasonable chance of accumulating new wealth out of which, over a series of years, the National Debt can be reduced and gradually paid off.

If my conclusions are right upon this point, and I do not think they can be assailed, they really settle the whole question, as the welfare of the community as a whole must be the governing consideration.

Nevertheless, it is pertinent to consider other objections to a capital levy as affecting particular sections of the community. It is of the essence of sound taxation that it should be fair in its incidence.

Now let us consider two cases:—

“A” for 20 years before 1914 had an average income of £1,000 a year which, having no family to provide for, he lived up to.

“B” on the other hand with the same income for the same period, but having a family, saved half his original income and lived on the rest, having thus accumulated, say, £10,000. “A” has, therefore, no capital on which a levy can be made, whilst “B” will have to find £3,100, though both have paid the same rate of income tax; indeed “B” has paid more in direct taxation, for he has already paid tax on the interest derived from his savings. What justice is there in this—to penalise the man who has deserved well of the State by his thrift and to let another who has enjoyed a large income to the full go scot free? The “ability to pay” of both “A” and “B” was, in the first instance, equal.

Or take another case. “A” is an old man who retired just before the war on a capital of £50,000.

“B” is a young man just beginning to earn a fine income.

“A” has to find £15,500, “B” has to find nothing, and the effect of the capital levy on “A” is, partly, to reduce the amount of income tax which “B” would otherwise pay.

But, in a material sense, “B,” with his life before him, will benefit to a much greater extent from the winning of the war than “A,” who has perhaps only a few years to live; and, as is always the case where a particular section of the community is selected for taxation which ought to be borne by the whole, of similar injustices affecting not only individuals, but whole classes could be multiplied indefinitely.

We are sometimes told that there should be “equality of sacrifice” between those who have given or risked their lives at the front and the capitalists at home, and this has been used as an argument in support of a capital levy or “conscription of capital.” It is really no argument at all, but only a catch-phrase, because of course there can be no comparison in such a matter of “lives” with “capital.” Besides it would not work with any sort of justice or equality, because thousands of those, who have risked their lives at the front, are capitalists also and would now have to pay the capital levy as well; and thousands of those who have not risked their lives, but happen to have no capital on which a levy can be made, though they may have good incomes, will benefit unfairly at the expense of those who have.

It might be some compensation, though it would not in the least do away with the essential injustice of the tax, if the capitalist could be assured that his future income or other annual taxation would be reduced pro-

portionately to the capital levy he would now be called upon to pay. But is there any possible security that this would be so? No parliament can bind its successors.

For these reasons, which are by no means exhaustive of those which might be adduced, I submit that the case against a capital levy is complete. There is no such panacea for the burden of debt which we have to face. With a little more ingenuity and a wider field of vision than has characterised our national finance in the past, I think it possible that new forms of taxation, such for example as the luxury tax, or other forms of taxation on expenditure, may be found; but in the long run it is only by increased production, accompanied by the strictest economy over a series of years, that we can hope as a nation to get back to anything like the financial position which we occupied before the war.

But even so, will anyone be found to say that the war was not worth while?

December, 1918.

II.

The Present Unrest in Industry.

I SUPPOSE that nearly all of us are convinced that an indefinite continuance of the present condition of agitation and unrest will inevitably result, if not in national bankruptcy, at least in a very serious diminution of our trade and in consequent loss and suffering to all classes of our population. But, while it is easy to foretell the result of the continuance of present conditions, it is much less easy to suggest the remedy for the evil.

It is quite a common thing to hear people say that they have sufficient faith in the common sense and intelligence of our working classes to believe that the bulk of them will never be led by the extremists and agitators into revolutionary courses.

I fully share the belief in that common sense so far as the great majority of working men are concerned, but I say deliberately that we are all living in a fool's paradise if we expect that common sense to prevail unaided by education and enlightenment on the economic principles which underlie our complicated modern polity.

The questions of economics which are involved in the present labour troubles are questions upon which the ordinary working man is profoundly ignorant, except just in so far as they appear to his mind directly to affect his own position. I say this without any disparagement to him, because they are questions upon which he

has received practically no education, and which have hitherto lain completely outside his sphere.

As a consequence he is entirely at the mercy of the clever men who constitute what are known as "the intellectuals" of the present labour movement, who have, it is true, given some study to the subject, enabling them to talk with a good deal of reason and argument upon it, which at first sight appear to make a strong appeal, but who have approached it with a strong bias and from only one point of view. Unfortunately their object in many cases, it is obvious, is not to build up and improve conditions in the only way in which they can be improved, but to destroy capital and wealth in private hands, because they have brought themselves to believe that their existence in those hands is inimical to the interests of the working classes.

The power thus obtained by these clever men over the intelligence of the working classes has been used to the full, and not always too scrupulously, with the result that the latter have become imbued, or are in imminent danger of becoming imbued, with the arguments of one side only of a question which has to be considered and dealt with from many points of view. It is only natural that the predominant desire in their minds should be the improvement of their own position, which they are told can be obtained at the expense of their more fortunate fellow citizens, and that, under the influences to which they have been subjected, they do not appreciate the limitations and conditions which the inexorable economic laws impose upon that improvement.

The need for a clear and direct statement of these limitations and conditions, and of the effects which will be produced by ignoring them, not only upon the

country but also, and primarily, upon the working classes themselves, in such form as will be understood by them, is urgent, and though a good deal of quiet work has been and is being done in that direction, a much more active campaign is now required. It is my individual view that the education of our people from the elementary schools upwards in the elements of political economy is one of the proper functions of government, because under modern conditions it is necessary for the safety of the State; but as this has not hitherto been done, all who are interested in the maintenance of our trade (and who is not?) should combine and form a fund for the purpose of conducting the necessary educational propaganda before it is too late.

A point should be made of obtaining able men, with some special training in economics, who, by their pens and by word of mouth at meetings of working men, will be able, in a simple and direct manner, to put some elementary truths before them and to show them the consequences to themselves of a continuance of the present agitation and unrest.

There is probably no one cause which tends to promote this unrest more than the continuance of the present high prices, which bear with especial, but by no means exclusive, severity on the working classes, and which in turn lead to continual demands for increased wages to meet them. But the increase of wages itself, instead of being a remedy, simply increases the evil which it is designed to meet, and so things go round in a vicious circle from which, by that means, there is no escape.

Profiteering is, in the popular mind, one of the chief causes of high prices, but while it undoubtedly exists and is much to be condemned, it is probably only a minor contributor to the evil.

The real remedy lies not in mere palliatives like the constant increase in wages or the abolition of profiteering, but in attacking the root of the disease of which these are the consequences.

The root of the disease is that we are spending as a nation more than we earn, and that our imports exceed our exports to such an extent that the profits from our foreign investments, and from our carrying trade, both greatly reduced by the war, no longer suffice to rectify the balance.

The Food Controller has recently told us that, owing to the fall in the value of the pound sterling in the countries upon which we are dependent for much of our food supplies, the food coming to us from them costs us 20 per cent. more. This is largely due to reduction of our exports, especially coal, a fact which probably not one in a hundred of our working men understands, or has ever had clearly put before him in such a way that he can be expected to understand it.

The real remedy, then, for the evil of high prices lies, in the long run, in the increase of production of commodities both for export and home consumption, so that our foreign exchanges may be improved and that the ordinary laws of supply and demand may operate in normal fashion. If the supply of all necessary commodities were again brought up to the demand for them these laws would at once operate and there would soon be a fall in prices, not perhaps to the pre-war rates, but at least to a much lower level than the present.

It should, therefore, be explained to working men that to a great extent the remedy for the evil lies in their own hands, and that it is only by their own industry that a real improvement can be effected. The interweaving of the threads of cause and effect in modern commerce, and their bearing upon our social polity, are

an intricate business, but there are some, at any rate, of the principles which underlie their working that can be made clear to any ordinary intelligence, which is certainly not lacking in the great majority of our working men.

The support of such propaganda is entirely consistent with the utmost sympathy with the claims and aspirations of the working classes for a real improvement in their condition, especially as regards education and housing—two of the principal and most vital issues which have now to be dealt with. It is also consistent with full sympathy for the improvement of the status of the working man in other directions, for example, in the way of profit sharing and participation in the management of industrial concerns.

But there are two ways of approaching this great question which differ fundamentally. The one must inevitably lead to disaster, while in the other lies the only hope for the future of the nation. These two ways have one point in common upon which we are all practically agreed. The condition of our working classes has got to be improved, and the only question which has to be solved is, how can this be done in such a way that the remedy may not prove worse than the disease, by destroying our trade and thereby pauperising the whole nation?

And here I would warn those who are naturally impatient to see better conditions for the working classes brought about in the shortest possible time that it is quite impossible to remedy the mistakes of nearly a century, during which our industrial system has grown to its present proportions, in a few months or even years. The process must inevitably be gradual or it will destroy its own power. Yet one constantly reads tirades against

the Government, because within a year after the termination of the war, and, indeed, before, technically, it is actually terminated, the millenium has not been brought about.

The most essential thing of all is the spirit and point of view in and from which this process is to be approached. Put in a nutshell it is this: is the levelling process, which we all desire, to be a process of levelling up or levelling down? The two are essentially different though they may have the same object. For while the one is essentially constructive, the other is destructive. The spirit, for the most part, animating the latter is the spirit of class jealousy and enmity—the desire to get level with those who are thought, and perhaps quite justly thought, to have had in the past more than their fair share of the good things of this world:—“You have been too much of the top dog during the last 50 years, now it is my turn!”

If that is to be the spirit in which the reforming process is to be undertaken, then I say without hesitation that it can never succeed, because the process itself must destroy the only means and conditions of its success.

The other alternative—the process of levelling upwards, is animated by a wholly different spirit. It pre-supposes the desire to build up and construct on a sure foundation, and to make the best use of the materials at hand for the building.

Now let us see what these alternatives in practice mean.

The first starts upon the assumption that capital is at present in the wrong hands, which have no right to keep it, and that it should be confiscated by the State for the benefit of the people at large. Underlying this there seems to be an idea that this process will enable

everybody to live a comfortable, easy life on terms of substantial equality.

There are various estimates of what the total capital wealth and income of the country are. Let us take the figures after the war at approximately 16,000 millions of capital—a very liberal estimate—and 2,000 millions of taxable income.

Would the working classes gain anything by the distribution of that capital and income at all commensurate with what they would lose?

Our population is, roughly, about 45 millions all told.

An easy arithmetical sum will show that this represents per head a capital sum of £355 and an annual income of £44. From that income the whole taxation of the country would have to be raised and would fall equally upon all, instead of being raised, as it is at present, to a very large extent, from those who are either wealthy or at all events well-to-do. I believe it to be a fact though one not generally known, that of the present income tax, which produces nearly 340 millions a year, about 97 per cent. is paid by 3 per cent. of the population, and 60 per cent. is paid by only 60,000 people—between $\frac{1}{7}$ th and $\frac{1}{8}$ th of 1 per cent. of the population. Even with the lowering of the liability for super tax to incomes of £2,500 a year, there are less than 60,000 people who are liable for that tax. There are less than 800 people with incomes over £50,000 a year and they pay more than half that income to the State. There are less than 8,000 people with incomes over £10,000 a year, and they pay over £4,000. Very large sums are also contributed to taxation in the shape of estate duties, the great bulk of which is paid by more or less wealthy people.

The producing power of the nation depends upon its capital almost as much as upon the industry of its people. Either without the other is shorn of half its value, and if all the capital were equally distributed, or held by the State as trustee for the people, there would be an end to all enterprise. Neither the individuals, each of whom would have only £355 of capital, nor the State, administering the capital thus distributed, could possibly afford to run the risks which wealthy men have continually to run in the foundation of new enterprises and the exploitation of new ideas and inventions.

The laying of the first Atlantic cable, before it was successfully accomplished, would have ruined any but very wealthy men, and the same may be said of countless other epoch-making inventions, all of which have contributed to the prosperity which we enjoyed before the war.

While, therefore, there is a great deal to be said for the more even distribution of wealth, and that country may be said to be the most happily placed which has the largest number of well-to-do citizens, the idea that any modern industrial state can survive, or maintain its position in the world of commerce, without a large body of citizens who have accumulated wealth is purely chimerical. It is equally chimerical to believe that the State itself can, in the great majority of industries, supply the initiative to take the risks which are essential to industrial prosperity and have been supplied and taken, by men of means, who have thus used their wealth for the common good.

It may be said that there are few but the most extreme who advocate the distribution of capital amongst the whole of the people in that crude form.

Most, even of the extremists, would seek to attain the same object by different means. They would exempt the poorer classes from all taxation, and throw this entirely upon the "capitalists" and well-to-do. A large part of capital is to be confiscated to the State and at the same time a much more steeply graduated income tax is to be imposed upon the larger incomes.

It is a question of degree. We are all agreed that under existing conditions the greater burden of taxation must fall, as it does at present, on the wealthier classes, but if that is carried too far and with the desire to penalise wealth to such an extent that a small minority, which is at the mercy of the votes of the majority, is to pay practically the whole of the taxation required for national purposes, it becomes confiscation—the distribution of all existing wealth among the people at large in a different form.

But, whatever form it takes—whether crude distribution, confiscation to the State, or oppressive taxation of wealth, the result must be the same. The means of production will be destroyed, and with that destruction, our industries will dwindle and fade away and the most intense and acute suffering to our entire industrial population must follow, for they will only have two alternatives left to them—emigration, or the reduction of their scale of living to a point far below that to which it had reached before the war.

Our business at the present time is to bring this result clearly before the minds of our working classes in such a way that they may realise what will be the consequences to themselves, sooner or later, of the courses recommended to them by the more extreme of their leaders. It is surely quite possible for them to see that the total wealth and income of the country are

limited, and that, if they were twice as great as they are, they would still not suffice to keep all classes of the population in the life of comparative ease and comfort which are held out to them by some as being attainable.

The alternative, and the only alternative, as it seems to me, is to show them that in work, work and again work, for all classes, rich and poor, in their respective spheres—and I mean real work in which every man has a pride and interest, not merely the perfunctory kind—lies our only hope of salvation. The means of production have to be increased, the rich must give both their money and their time, and the working classes their industry, to secure that end.

It may be possible to reduce the hours of work in some trades and businesses, but this can only be done if people will really put their backs into their work while they are at it.

Incidentally, I wish that some other term than that of "working classes" could be found to express one's meaning, for it seems to imply that work is confined to them, whereas one knows that there are hundreds of thousands of our people, shop-keepers, clerks and others, not usually included in that designation, and thousands even of the well-to-do and wealthy, whose daily work is no less strenuous than that of those who are usually designated "working men." Nowadays we are nearly all, in the true sense of the words, "working men and women," and ought to be proud of the title.

Hand in hand with work and the increase of production must go the improvement of the lot of the working man, particularly in regard to housing and the means of education. Increased production will increase wealth and provide the only means by which he can secure an adequate share in that wealth, and better

education and housing will give him the means of turning that increased share to rational and beneficial uses. For no action of the state can do more than work towards equality of "opportunity;" the use that is made of that opportunity is and must always be a matter for each individual.

On these foundations I am confident that there can be built up a better social condition, though the building, like all good building, must take time. It can never arise from the mere desire to "get even" with those who, by harder work or better brains, have secured a larger proportion of this world's goods.

But, if an appeal to the working man, however direct and cogent it may be, on the lines of economic exigency, is to have its full force and effect, it must be accompanied by another appeal addressed not only to the working man, but still more to the wealthier classes. There never was a time in which greater need existed for economy, both public and private, than the present, and the working man is likely to turn a deaf ear to such an appeal as ought to be made to him if he sees that the more fortunate classes are not doing their share towards the common good.

The luxury and thoughtless extravagance indulged in at present, especially amongst some of those who through the war have acquired newly-found riches, and whose title to them is none too good, are much to be condemned. The rich and the well-to-do should not forget that they, quite as much as the working man, owe a duty to the country, and are trustees of their good fortune for the common welfare of the State.

The ostentation of wealth is bad in itself, and bad also in its indirect effects, and the influence it has upon those who are less fortunate in that respect.

To the rich, therefore, both men and women, an appeal should be made to exercise some self denial, to cease from flaunting magnificent motor cars and dresses before the eyes of those to whom such things are unattainable, to be content, each in his own degree, with a simpler life and simpler and less expensive pleasures, and to utilise the surplus which they will thus be enabled to save in helping the nation to regain its former prosperity. One can safely say that in reality they will lose little, and gain much, by so doing; for happiness in life does not, after all, consist so much in eating dinners at three or four pounds a head, or in driving motor cars, costing three or four thousand pounds apiece, as in being members of a contented and prosperous community.

October, 1919.

III.

Capital and Labour.

IN my last paper I urged the need of an organised propaganda amongst the working classes regarding the elements of the financial and economic problems confronting the nation at the present time, pointing out that the prevailing ignorance of these was a real danger to the State.

One hears and sees advocated in the press so many wild-cat schemes betraying so much ignorance and so little thought and reflection upon their consequences, and even upon the possible means of carrying them into effect, that one is sometimes tempted to despair of the common sense of many of those would-be instructors of public opinion upon matters the very elements of which they themselves appear to have made no effort to grasp. It seems the more necessary, therefore, that those who have given some time and thought to these questions should endeavour to lead public opinion, which at present seems to be very much in a state of flux, along the right channels, or at all events to divert it from following channels which can lead nowhere but to confusion and general chaos. Indeed, I do not think it is any exaggeration to say that this is one of the most pressing and urgent needs of the present time, and it has occurred to me that, having advocated such a propaganda in a direct and simple form which would be likely to make an appeal to the common sense of our working population, it is almost an obligation to indicate the lines which it might take.

In the following paper I have only endeavoured to deal with one branch of the subject, viz. : the relations between Capital and Labour, but I may be tempted to supplement this with a further paper on kindred subjects, especially the Nationalisation of Industry and the transfer of all capital to the State, which are sometimes held out to working men as a practicable alternative to our present system.

It is my hope that such papers may prove useful as "briefs" to others who have more capacity and opportunity than I possess for addressing meetings of working men, for working men do not, as a rule, read treatises on political economy or even the magazines in which these questions have of late been fully dealt with. Such meetings therefore afford the only effective means of bringing home to them the fact that there is another side to the arguments which are constantly being addressed to them by the extremists, and which, for far too long, have been left unanswered in the only way in which the answer can be sure of reaching them.

What is Capital? It is not very easy to define. We often think of it as money, but money forms a very small, almost negligible, part of capital. Money is only a token used to facilitate the transactions of business and of daily life, which is really one vast system of exchange. It is hardly possible to conceive of any business being carried on without some capital, whether owned or borrowed.

The capital of a carrier is his horse and cart or motor lorry; of a blacksmith his anvil and the tools of his trade. And so, throughout the whole range of industry, capital supplies the means of production and distribution in the shape of factories, plant, machinery, tools, wagons, and everything else of a similar kind

without which no production or distribution would be possible.

These islands support to-day a population of 45 million people. It is not the soil or what can be got out of it by any manual labour that would give the means of livelihood to anything like that number of people—they would not support more than a third of them, at the very outside, in decent comfort. What supports them is the great and complicated system of industry which has been developed almost entirely during the last century.

We are often told that it is the manual workers alone who have produced that industry and the wealth which has resulted from it, that capital is unnecessary, and that it is the enemy of the workers because it has appropriated the profits which properly belong to them.

It may be true that in the past capital has taken *too large a share* of the profits of industry, and that under our industrial system, as it has existed during the last 50 years, the manual workers have not received their fair share of the profits which they have helped to produce. But do not let us jump from the one extreme to the other, because by so doing we shall be making things worse, instead of better, by “destroying the goose that lays the golden egg.” You cannot at a single stroke remedy the mistakes of half a century.

But it is not true that the manual workers have “created” industry and it is equally untrue that “capital” is their enemy. On the contrary, it is an absolutely essential element in the production of any true form of wealth, and, properly used, is therefore their friend and partner. So far from wishing to see what is called “capitalism”—almost as a term of reproach—abolished, we should wish to see it extended

by being much more widely spread. Capital, as we know it in industry, is mainly the result of savings accumulated, not by idlers, but by people who are working just as hard as the manual workers, though their work may be of a different kind, and when anyone has managed to put aside a few hundred pounds out of his thrift and savings, he becomes to that extent a "capitalist"; but so far from abusing him for that, we ought to praise him for being a good citizen, and one who is doing far more good to his country than the man who spends every shilling that he earns. You can't draw the line at any particular figure and say that a man who has accumulated £5,000 is a "capitalist" whilst denying that title to one who has accumulated only £500. They are both "capitalists" in their degree.

Under our modern system of joint stock companies such companies are the chief "capitalists," but to a large extent their capital is made up of the aggregate of the hard-earned savings of hundreds of thousands of small investors, each of whom is a "capitalist" in the sense that he is a partner in a company which provides the means of production and gives employment to labour.

This system has been doubly beneficial in that it has enabled large numbers of people, who could not have run small businesses of their own with any prospect of success, to invest their savings to much greater advantage than they otherwise could have done, and at the same time has made such savings, amounting in the aggregate to vast sums, available for the development and extension of our national trade, thus affording the means of employment to hundreds of thousands of working men.

The more "capitalists," therefore, in the true sense of the word, the better, for it is only by means of the accumulation of savings that the country and all classes of the people, who make up the nation, can hope to prosper.

But it is not capital any more than the manual workers which has "created" modern industry.

If I am asked: "What, then, has created our industry if it is not the manual workers or capital?" I should answer in one word: "brains." But let me add at once that brains alone could not have done it without the help of both the others.

The real creators of our modern industry were men like James Watt, the inventor of the steam engine, and Richard Arkwright, the inventor of the power loom, and many other hardly less well-known men, each of whom, by the exercise of his exceptional brain power, and by adding something to the common stock, has enabled this country to take the lead in building up industry as we know it to-day.

But the brains of Watt and Arkwright would have been useless to the country without the help, first of all, of capital, and secondly, of the workers. Before their inventions could be utilised they had to be applied to practical purposes, first by actual experiment, and then by the construction of the machines embodying their ideas. Later on factories had to be built in which those machines could be installed and concentrated. All this was done, and could only be done, with the help of capital; and it was only after the factories and machinery had been provided that production, on anything like the present scale, could begin and that the manual workers could, by their work and industry, enable these joint products of brains and capital to be

turned to practical account in producing manufactures and creating wealth. And if capital is necessary for production it is equally necessary for distribution. One cannot go into a single shop—the grocer's or bootmaker's—which is not dependent on capital for purchasing and carrying the stocks necessary to supply us with the goods we daily want.

There are therefore three great partners in the production of all industrial wealth—brains, capital and work, each of which is absolutely essential to the others, and each of which is entitled to its reward in a fair share of the wealth produced by all three.

Instead, therefore, of saying, as many of these would-be teachers tell the working men, that the manual workers have created industry, it would be much nearer the truth to say that brains and capital together have furnished the opportunity for work and the means by which alone this country can hope to support its present population.

A useful and practical illustration from quite recent times of how this principle works, and of what it can do in the way of providing the means of employment and of comfortable existence to thousands of workers, is supplied by the business of Henry Ford, the proprietor of the Ford motor car. He built a motor-car factory at Detroit in the United States of America, which, starting from quite small beginnings, he determined should become one of the greatest factories in the world.

How did he do it, and what has been the result?

In the answer to these questions we shall find an apt illustration of the principle for which I am contending, viz., that the whole fabric of industry can only be produced and maintained by close alliance and co-operation between three things—brains, capital, and work.

Before he could build his original factory—a very modest affair compared with what it now is—he had to find capital to build it with. That was the first essential. He started, therefore, either as a “capitalist” himself, or with the help of other “capitalists” who were willing to find him the money.

But, his object being to produce a cheap car which would be able to compete on favourable terms with all others, it was absolutely necessary that the factory should be built and equipped, and the business run, in the most efficient way, so as to reduce the cost of production to the lowest point.

That is what we call “organisation,” which is nothing more or less than the product—and a very high product—of brains.

That, then, was the beginning, and I believe that in the first instance Ford paid nothing more to his workpeople than the then standard rate of wage. Probably the business could not have afforded any more.

But mark the sequel. Profits were made; instead of being spent in mere enjoyment and luxury, they were steadily accumulated and put back into the business, which grew and grew, until, at the present time, it employs thousands of workpeople and turns out, I believe I am right in saying, not less than 1,500 cars a day.

The growth of the business and the accumulation of capital from its profits enabled constant extensions and improvements in the factory, plant and machinery to be made, and the cost of production to be continually decreased, so that the cars could be sold cheaper and cheaper, and yet show a good profit. So here we see capital, in the form of accumulation of savings, came in again.

But Henry Ford is an enlightened man. Having thus established his business, he felt that his workpeople should share in his prosperity, with the result that he is to-day paying thousands of men, who normally would not have earned, even in America, more than, say, three pounds a week, a pound a day for eight hours' work.

Thus the whole of this great production of wealth, and the whole of the employment and means of comfortable existence which it has given to thousands of working men, have been due primarily to the brains which designed the Ford factory, and the organisation by which the business is carried on; secondly to the original capital by means of which the factory was built, and to the accumulation of profits (also capital) by which it was improved and extended; and, finally, to the daily work of the thousands of workpeople employed in it. But not one of those workpeople could have been so employed if the brains and the capital had not been there.

Now can any one say, with this example before them that capital, properly employed, is in any sense the enemy of labour? On the contrary it is its truest friend and ally, and each is absolutely necessary to the other.

But, if this is so, certain conclusions follow.

If brains, capital and labour are all required, working together, to produce wealth, it is obvious that each is entitled to its reward in a proper share of the wealth produced, and that we cannot hope to get either the brains or the capital, which, as I have shown are necessary, without that reward.

And here we come to the crux of the whole position.

What is there to divide between labour, brains and capital? There are only 20s. in each pound, and we

know well enough, in the case of our own households and families, that we have got to "cut our coats according to our cloth." But when they look around in the streets and elsewhere and see so much apparent evidence of wealth and prosperity, working men are apt to forget that the number of pounds available for division amongst the people of this country is, after all, limited.

The nation is only the aggregate of the households and families which it contains, and the same considerations apply in their degree to the finances of the nation as apply to those of each household. Its total income, big as it may be, is just as much limited as that of each of us to (1) what it can produce or earn, and (2) the interest upon its accumulated savings.

We have, therefore, got to picture in our minds the nation as one big family with a certain limited income, dependent upon the amount of work which the individual members of it are prepared to do. That income has got to be divided between brains, labour and capital, and, if we are to progress and prosper, a certain portion of it has to be saved each year and put on one side to provide for repairs, renewals and extensions. At present the income available, notwithstanding the apparent evidence of prosperity, is certainly not enough to provide everyone with the standard of comfortable existence which we should all like to enjoy. The total estimated income of this country, which is liable to income tax, that is, incomes in excess of £130 a year (which is no more than a bare subsistence) is less than 2,000 millions a year, which, divided up amongst the 45 millions of our population, means only £44 a head; and out of that practically the whole of the taxes, amounting to £18 a head, which are at present mostly borne by the wealthy and well-to-do, have to be paid.

Dr. Bowley, who has made an exhaustive examination of the whole subject, and who is perhaps the greatest authority upon it, estimates that before the war the total spendable income of the country did not exceed £162 a year (nearly £3. 2s. 6d. a week) for each family of five persons.

If we proceeded to divide it we should at once destroy the very sources from which that income is derived by pulling down the whole of the present machinery of our industrial system, with the result that instead of the workpeople's income as a whole being increased it would inevitably be reduced to a good deal less than it is now.

The same authority shows that very mistaken ideas exist as to the proportions in which the income from industry is divided between (*a*) labour and (*b*) brains and (*c*) capital. Working men have often been told by Karl Marx and others that capital takes more than half of this profit. The fact, so far as it can be ascertained in a large group of industries of which the figures have been examined, is that wages and salaries, which constitute a first charge upon all the income to be earned from production, absorb at least 68 per cent. of such income, leaving 32 per cent. to the employers for interest and share of profit, reserves, and provision for development and extensions, etc., out of which most of the direct taxation in the shape of income tax, and, where payable, super tax, have to be paid, and the whole risks of the industry have to be borne and provided for. This does not average much in excess of 10 per cent. on the whole capital employed, which, in former days, was the rate that most people looked for when embarking capital in the risks of business, though now, with our extended system of joint stock companies, hundreds of millions have been invested at half that rate or less.

It is clear, therefore, that labour cannot be rewarded, as we should wish to see it rewarded, out of our present income, simply because there is not enough to go round; and, if we try to give labour more than its fair share of that income, the very means of earning it will be destroyed, because brains and capital, both of which, as I have shown, are absolutely essential to industry, will have nothing left for them, and there will be no savings to set aside for repairs, renewals and extensions, with the result that the whole fabric of industry will dwindle and fade away and everyone will be infinitely poorer than they are at present.

But is there then no prospect of our being able materially to improve the lot and condition of our working classes? Are we to say that the conditions which nature has imposed upon these islands are so cruel that they cannot support their population in the conditions which we all desire to see?

I do not believe for one moment that that is so, but the answer really depends upon ourselves. We know what happens in the case of a man with small wages and a growing family. If he works hard and keeps steady and gradually improves his position, he can keep pace with his growing responsibilities, but if he becomes disheartened and less industrious, he goes steadily down hill and his family become paupers.

So it will be with the nation. It has immense untapped resources at home and abroad, and if we sternly make up our minds that they shall be developed to the full by improved efficiency and methods of organisation, and above all by the hard work of every class of our population, brains, labour and capital all contributing to the common object, we can undoubtedly largely increase its income and thereby provide the fund

out of which alone labour can receive its fair reward and be able to lead the life which we all desire for it. The more you increase production the greater becomes the ratio of profit, because fixed charges—rent, rates and taxes, and management charges—always constitute a heavy burden on a small output, which becomes lighter as that output increases.

But capitalists must also be prepared to contribute their share to increased production by better organisation, by supplying improved plant and machinery and by increasing efficiency all round.

To sum up then, it is only by sheer hard work on the part of all concerned, rich and poor alike (which does not necessarily preclude a reasonable shortening of hours) that we can hope materially to improve the conditions of labour or to give it its fair reward in a larger share of the increased income which hard work and greater efficiency all round will produce.

In my remarks in these notes I have often had to use the words “labour” and “manual workers,” but I want it to be remembered that manual work is by no means the only kind of labour. There seems to be a sort of idea in the minds of many that, because a man is rich, he leads a comparatively easy and idle life. Now a-days this is rather the exception than the rule. Hard brain work is in some ways more exhausting, and takes more out of a man than hard manual work, and many a rich man works fully as hard, and his business life is just as strenuous as that of the working man.

But leaving the rich and well-to-do out of account, there are hundreds of thousands of clerks whose work is just as necessary to industry as a whole as that of the manual workers, and who are equally entitled to share with them in the profits of increased production. In the

division, therefore, of the income arising from increased production, all kinds of labour, manual and clerical, as well as brains and capital, have to receive their fair share.

There are many working men who, when the considerations above urged are put before them, may be inclined to say: "We know all about what is said as to the necessity of brains, capital and labour working together, and of course we agree that you can't have any industry without capital. But why should that capital be in private hands? Why should not it be vested in the State and let us all work for the State and not to put profits into the hands of private individuals?"

That question deserves to be dealt with, and in a further paper I may endeavour to show that, attractive as the suggestion may be to the minds of some working men, it is utterly impracticable, and would inevitably lead to the almost total destruction of all industry.

But it is enough for the purposes of this paper if I have succeeded in showing that, so far from capital being the enemy of labour, it is only by brains, capital and labour, working in close co-operation, that we can hope to prosper—nay, more, that the means of livelihood of anything like the present population of our islands can be maintained.

IV.

The Nationalisation of Industry.

IN my last paper I dealt, in the form of a "brief" for those who have the means and opportunity of addressing meetings of working men, with the relations between Labour and Capital, showing that capital was the life blood of all commerce, and that without it, in some form or another, no industry could exist.

But I then anticipated that, while many, perhaps the majority, of working men would realise this, when the elements of the subject were put before them, there were many who would still be inclined to say "we understand that capital is a necessity for industry, but that does not involve the existence of capital in private hands; why should not all capital be transferred to the State, which would thus become the sole employer for whom we should all work, without the enrichment of the favoured few at our expense?" In other words, why should not industry be nationalised?

I promised to endeavour to show that this suggestion was quite impracticable, and, if adopted, so far from benefiting the working man, would gradually be the ruin of all industry from which he derives his present means of livelihood.

Now, before one can argue intelligently about it, it is necessary to get a clear idea of what is meant by the phrase "the Nationalisation of Industry."

And first, what is meant by "Industry" in this connection?

The word is used to designate the whole complicated system of modern trade in all its ramifications. It comprises every branch of trade and business with the whole system of finance and distribution without which trade could not exist. It covers not only the great factories in which thousands of men and women are employed, but every small workshop in which a man either works alone or employs one or more assistants.

There is therefore no distinction to be drawn in this respect between, say, a boot factory in Northampton employing 500 men and the village shoemaker. They are both items in the system of "industry."

For remember, that many of our largest factories and businesses have been built up gradually from quite small and insignificant beginnings. Men have begun by working alone, or with two or three assistants, and, by their own industry and ability, have so increased their output that they have ended by being in charge of large factories or businesses employing, perhaps, 500 men or more. That is a process which, fortunately for the country, is going on all the time, and it is impossible therefore to draw the line at any particular point and say that, by "the nationalisation of industry," we only mean the nationalisation of the big factories and businesses and leave the small ones out of account.

Clearly, therefore, when we speak of "the nationalisation of industry" we mean all industry of every kind.

Secondly, what exactly is meant by "nationalisation"?

It means the transfer from the individual owners to the State of the ownership and control of industry, and, as a necessary corollary to that transfer, the transfer to the State of the capital without which industry could not exist.

Indeed, in the minds of some of the principal advocates of nationalisation, it is the transfer of all capital from private hands to the State which appears to be their dominant object.

Now I am, of course, aware that there are particular industries, such as railways and coal mines, for the nationalisation of which special reasons may be adduced. That, in each individual case, may be a good thing or a bad thing, but I am not at the moment concerned with that. What we are discussing is nationalisation of industry as a whole, and the advocates of that system must "go the whole hog" and be prepared to justify their contentions on that basis.

Let us make an effort to realise what this would really mean, for I doubt whether most of its advocates have ever thought out the result of their proposals.

It would mean that every factory, every farm, every motor lorry, horse and cart, and every shop in every town and village would belong to and be worked and run by the State, whose servants and employees every one of us would become.

If you wanted a suit of clothes or a pair of boots or a bottle of medicine, you would have to buy them from the State, and the cloth, the leather and the drugs, from which your clothes, boots and medicines are made, would be manufactured by the State.

The first thing that strikes one about such a proposal as that, apart from its almost "Gilbertian" aspect, is that it would absolutely eliminate all competition; and competition is the very soul of business and of all progress.

We all know very well that, if we cannot get the article we require from one shop we can find it at another; that, if the quality of the tools or the tea or coffee or

whatever it may be that the shopkeeper sells, is not very good at one place, we can buy a better quality elsewhere at the same price. Why? Because the manufacturer who supplies the better quality is in competition with the one who supplies the inferior article, and because the shopkeeper, from whom you buy the better article, is a bit keener to find out where he can get the best supplies, and is perhaps ready to accept a little lower profit on his turnover in order to attract more customers. By making and selling the better articles both manufacturer and shopkeeper are increasing their own sales and consequently their own profits, and they are doing the general public a service because they are supplying them with a better article at the same price.

All this may seem very elementary, and yet it would seem to have been entirely overlooked by the advocates of the proposal we are now considering.

For, directly the nationalisation of industry came into force, the whole of this competition would be swept away.

Every shop at which we are accustomed to deal would be supplied from some central depot owned and controlled by the State, and could only sell the goods with which the State supplied it. The State, through its officials in charge of its manufactures and imports, would be an absolute autocrat as regards the nature and quality of the goods which it choose to sell to the people, and only by the force of public opinion, which would operate very slowly, could the nature or quality of those goods be changed or anything new be introduced.

In the smaller towns and villages, the State, in its desire to economise, would probably have only one shop of each kind; one chemist and one bootmaker, and we should all have to go to that shop or go without what we wanted.

In the larger towns, no doubt, there would be shops of each kind in every district but, as they would all be supplied from State depots, which in turn would be supplied from State factories, this would not be of much advantage, except from the point of view of distribution.

In fact the probability is that, with the bureaucratic methods which would inevitably follow such a monopoly as I am endeavouring to describe, we should all be parcelled out into districts and compelled, as we were during the war, to deal with particular shops.

From the consumer's point of view, then, we can easily see that the change would not be very advantageous.

But, as every one of us would become the servant or employee of the State in some capacity or another, whether as manufacturers, distributors or retailers, there is another aspect, even more important, from which the question must be regarded.

Hitherto a man's success in life has depended mainly on his own industry and ability and upon his making up his mind to do his job, whatever it is, a little better than his neighbours and competitors. Here again the competitive instinct comes in as the soul of all progress. Every one of us has the strong incentive to improve his own position and that of his family and dependents. It is true that, under such a system as we are discussing, that incentive might not be entirely removed, but it would be enormously weakened. In the present imperfect state of human nature it is useless to expect the average man to work as hard for the State or for other people who are strangers to him as he will for himself and his own family.

Under a vast bureaucratic system such as the nationalisation of industry would involve, the chances

of a man's improving his own position by his own ability and industry would be small. He would be entirely dependent upon the goodwill of his superior official, and any improvement of his position over that of his co-workers, especially that of his seniors in age, would be regarded by them with jealousy. His own ability and hard work would tend to make him unpopular with his fellows, who would feel that he was gaining an advantage over them, and gradually we should sink into that deadening system of promotion by seniority which has become the bane of all public services. I do not say that individuals of exceptional ability might not be selected for the higher grades of employment, as they are sometimes at present; I am only speaking of what would become the general rule.

But, quite apart from this, a man in Government employment, unless he is quite an exceptional person, or is thrown by circumstances on his own resources, nearly always loses the enterprise and initiative from which, in private undertakings, this country has so largely benefited in her trade and commerce. It is a commonplace that the success of our colonial system was in the first instance largely due to the fact that the pioneers were left to rely on their own resources, and, unlike the German colonists, were untrammelled by officialism and red tape.

To a large extent this loss of initiative and enterprise is inevitable. Apart from the fact that, as a rule, an official under Government—at all events in a subordinate position—has no particular interest in going outside the ordinary routine, it is the fact that it is very difficult for him to do so. He is bound by rules and regulations which prohibit him from acting without reference to his superiors. If he does so, he does not,

even if he succeeds, gain any praise, and, if he fails he is censured and probably has a black mark put against his future promotion.

And if this is so at present it would be a hundred times more so under a system which would divide the whole population into grades of Government employees, and in which any signs of ability or individuality in the lower ranks would have to filter through successive series of officials before they would obtain recognition.

There would necessarily ensue from this a gradual deterioration in the mentality of our people. Cut off from the proper reward for ability, enterprise and industry, we should become listless and stereotyped and content to do no more than get through the exact job assigned to us. Invention and enterprise, to which the country owes so much, would die out, and, instead of leading the world in trade and commerce, we should no longer be able to hold our own in competition with other nations.

It has been one of the strong points in our political and economic system that there has been no class barrier in trade and business which industry and ability have not been able to break through. Hundreds and thousands of men, who started life as working men or clerks with nothing but their brains to help them, have risen by their own energy and initiative to the highest positions in commerce. This has been of infinite advantage to the State; for it has meant that new blood and new ideas have constantly been coming to the front and have prevented the stagnation which would ensue without them. But under a system such as we are now discussing, all this would disappear. Each of us would become a part of one huge machine, a mere cog in the wheel, and would cease to have the incentive or the

means for improving or scrapping that machine when it becomes obsolete or incapable of doing its work in competition with the more efficient machines employed by our competitors.

There are other aspects, too, of the question to be considered.

Bureaucracy would bring in its train the evils always attendant on such a system. It needs no argument to show that those who find that they cannot, by their own force of character and ability, get the recognition and rewards which they feel they deserve, will be tempted to resort to other means of obtaining them. Favouritism and corruption, for which bureaucracy always provides a fertile soil, will soon rear their heads, and the probity of our national life, which has hitherto been a source of pride, will be assailed.

Moreover, even if it were possible to rely upon men to work for the State as they work for themselves, it is quite impossible for the State to carry on any business to the same advantage or with the same degree of initiative or enterprise as individuals can. It is notorious that, with the possible exception of the Post Office, which in nearly all States is for obvious reasons a national concern, the State has never been able to carry on any industrial business with anything like the same success as has been obtained by private enterprise. The reason for this is obvious. Apart from the system, already referred to, under which any State concern must be run, and which puts it out of the power of its individual officers to exercise their own independent judgment in regard to the everyday problems which arise, without reference to a whole series of higher authorities, and possibly even to the political heads of departments, the State cannot afford to take the risks which are taken

every day by private firms, individuals and companies, in starting new enterprises, or making new departures in existing enterprises, of a more or less speculative character, which are vitally necessary for the development of our resources and for the extension of our trade.

The result of all these factors would be that, if anything like a general nationalisation of industry were established, the best and most enterprising of our population would emigrate to other countries where there was more scope and reward for their energies and our industries would dwindle and fade away. And the consequences to our people, as a whole, would be appalling, for, as I explained in a previous paper, our present population can only be maintained by industry, and we should soon reach a position in which we should no longer be able to pay for the food from other countries which is required for its support. Unemployment and want would stalk through the land, and there would be nothing left for it but the grim alternatives of starvation or wholesale emigration.

It seems an extraordinary thing that, with the example which we have before us in Russia at the present time, where the same sort of theories as are put forward in support of "nationalisation" have been tried on a scale never before attempted, men of any power of judgment should be found to advocate their adoption in this country. Would any working man wish to change his present condition for that of a Russian peasant whose daily bread and even life itself are dependent upon his conformity with a system of terrorism and cruelty such as has hardly ever been known in the world before?

The nationalisation of industry and its concomitant, the abolition of privately owned capital, will not then,

it may safely be said, afford the slightest hope of providing a remedy for our present difficulties or for what may appear to many to be the injustices of our present system; on the contrary they would make them infinitely worse.

Our present industrial system is full of imperfections in its results, but at least it serves to maintain a larger population in a greater degree of comfort than any other system which has yet been devised, and, rather than throw it over in favour of any rash and hazardous experiment which, in the only practical example of its application which we have yet seen, has resulted in one of the greatest tragedies of all time, it is surely the path of greater wisdom to endeavour to find the ways and means of improving it and of seeking to remedy the inequalities and injustices which it involves.

That it is capable of such improvement as will bring it more into conformity with our present ideals as to the well-being of our people as a whole, I do not doubt, but such improvement will not be brought about by any violent upheavals or by the extremist methods of setting class against class. It can only come about by the friendly and earnest co-operation of all classes—employers and employed—and above all, by their determination to provide the means of such improvement by industry and hard work, without which all endeavours to that end, however earnest and sincere, must be sterilised from their very inception.

March, 1920.

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